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TRANSPORTATION DIVISION

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Weekly Intelligence Summary No. 86

SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

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Middle East Air Lines, the Lebanese carrier, will benefit from a change in route through the Near East now contemplated by the US Pan American Airways. (Item No. 2, C)

The first of two Czechoslovak aerial caravans is scheduled to leave Prague shortly on a four-month Asian trip which will turn around at Singapore. The flight will consist of one aircraft carrying representatives of the principal government foreign trade monopolies and one transport loaded with samples, displays and motion picture films depicting Czechoslovak-manufactured products. A second itinerary, to take place at a later date, is planned to cover Africa as far south as Bulawayo in Southern Rhodesia. (Item No. 3, C)

The reported defection of a Nationalist cargo vessel to the Chinese Communists, if confirmed, may be the forerunner of other desertions from the Nationalist merchant fleet. It is also reported that the operator of the vessel, the China Merchants Steam Navigation Company, which is the principal merchant shipping operator in China, may consider it prudent to avoid further defections by laying up temporarily the major portion of its fleet. (Item No. 4, B)

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The UK's decision to convoy its merchant vessels into the Yangtze and the continuing ineffectiveness of the Nationalist "closure" of Shanghai are effectively frustrating the Nationalist attempt to seal off Communist China from substantial foreign trade.  
(Item No. 5, B)

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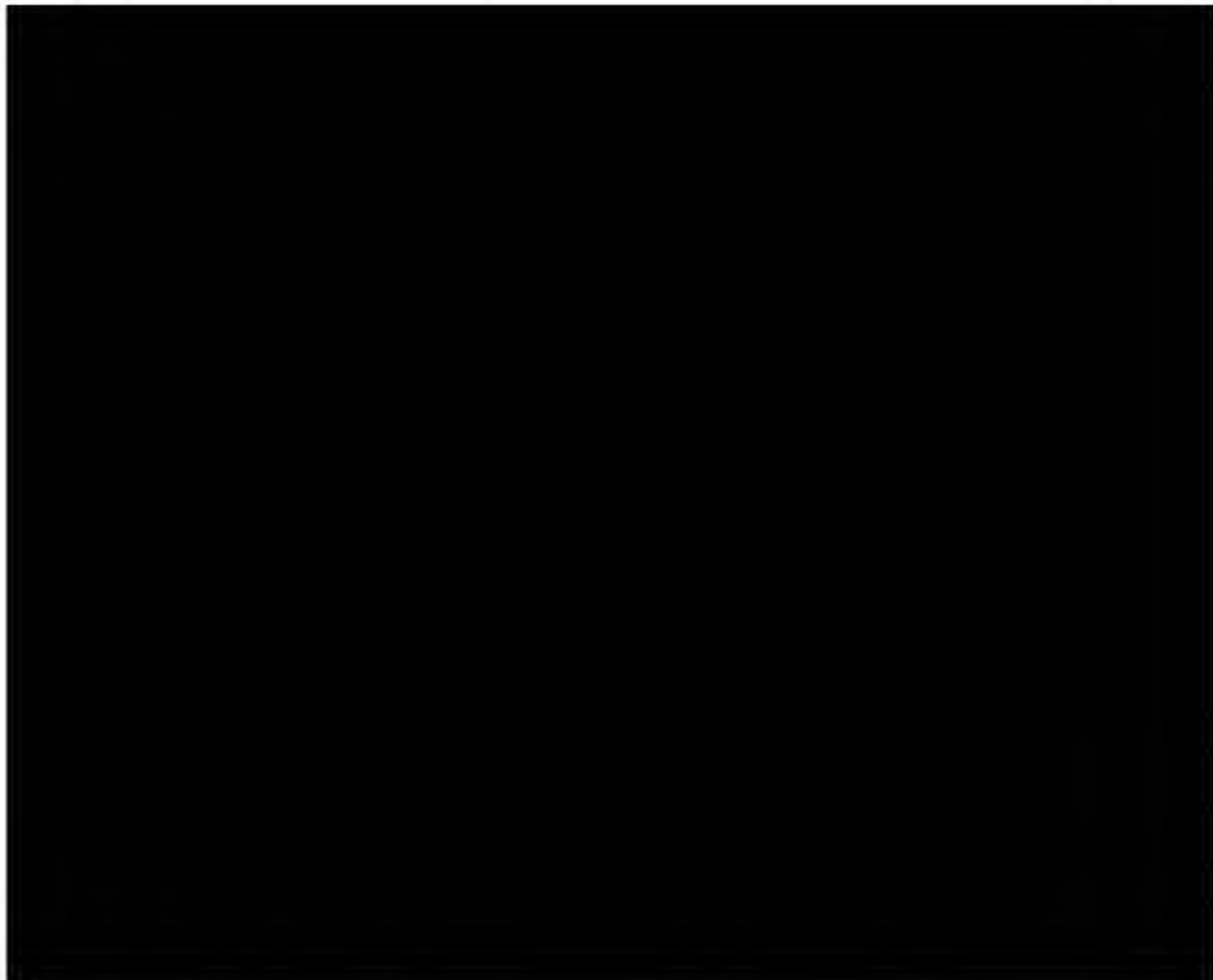
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SECTION II. CURRENT DEVELOPMENTS

CIVIL AVIATION

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2. Middle East Air Lines (MEAL), the Lebanese carrier, will benefit from a change in route through the Near East now contemplated by the US Pan American Airways (PAA). The US carrier, which passes through Damascus en route to Basra and Karachi, is reportedly planning to eliminate Damascus in favor of Beirut, to which city it will move its

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regional offices from Istanbul. The operations of Middle East Air Lines, which recently acquired three additional DC-3 transports from PAA in exchange for 37 percent of its stock, provide local regional services based at Beirut. Under these new circumstances, therefore, MEAL will be closely tied into the PAA network and will act as a feeder line for PAA's international services between Europe and the Far East. (Confidential)

3. Czechoslovakia is adopting Western promotional methods to advertise its export products and hopes in this connection to open new trade channels throughout North and Central Africa, the Middle and Far East (see D/Tr Weekly No. 85).

The first of two aerial caravans is scheduled to leave Prague shortly on a four-month Asian trip which will turn around at Singapore. The flight will consist of one aircraft carrying representatives of the principal government foreign trade monopolies and one transport loaded with samples, displays and motion picture films depicting Czechoslovak-manufactured products. A second itinerary, to take place at a later date, is planned to cover Africa as far south as Bulawayo in Southern Rhodesia.

While the collection of data on the productive capabilities of each country visited, including raw materials of possible value to Czechoslovakia, will be an important feature of these tours, an opportunity also will be afforded to survey at first hand desirable future air routes to serve expanding trade relations. This aggressive approach to potential markets not only implements present Czechoslovak foreign trade policy, but also affords unusual opportunities for the dissemination of Communist propaganda under circumstances attracting the maximum local publicity. (Confidential)

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SURFACE TRANSPORTATION

4. The reported defection of a Nationalist cargo vessel to the Chinese Communists, if confirmed, may be the forerunner of other defections from the Nationalist merchant fleet. It is also reported that the operator of the vessel, the China Merchants Steam Navigation Company, which is the principal merchant shipping operator in China, may consider it prudent to avoid further defections by laying up temporarily the major portion of its fleet. This move, although considerably curtailing the logistic capabilities of the Taiwan resistance forces, would prevent the Communists, whose fleet is notably deficient in ocean-going vessels, from substantially increasing their ocean transport potential for an amphibious operation against Taiwan by acquiring Nationalist vessels.

Fearing that a number of Nationalist ships now in Hong Kong may defect to the Communists, the company reportedly plans to lay up temporarily about 60 vessels at Haiphong and to transfer some merchant vessels to foreign registry, possibly Panamanian. (The company's original idea of placing the ships under British registry was allegedly discarded following press reports concerning British intentions of recognizing the Chinese Communists.) Registration of the ships under a foreign flag and their continued operation in Chinese waters, however, would probably neither render them immune to Communist capture nor prevent continued defections.

The vessel said to have defected is a medium size (4050 DWT) ocean-going ship, built in 1920 and sold by the US Maritime Commission in 1946 to the Chinese Government. It was one of 16 such vessels purchased from the US in 1946 by the Chinese as part of a long-range plan to rehabilitate and expand their fleet in order to take over a part of the Far East trade formerly undertaken by the Japanese.

The US has a direct financial interest in the disposition of Nationalist vessels. Since the end of the war, a total of about 33 vessels have been sold to the Chinese Government by the US Maritime Commission under long-term mortgages which originally amounted to over \$16 million. Moreover, the US also has a significant strategic interest. These vessels (Liberty ships, troop transports and smaller vessels totaling about 170,000 DWT) now constitute a major portion of the ocean-going tonnage available to the Nationalists. (Confidential)

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5. The UK's decision to convoy its merchant vessels into the Yangtze estuary in defiance of the Nationalist "closure" of the port of Shanghai will probably eliminate the effect of the naval blockade upon British shipping in Chinese waters, which may be expected to increase rapidly. A British warship has recently escorted two British merchant vessels "some distance" into the Yangtze estuary, securing their entry by a show of force made to a challenging Chinese naval craft. With respect to US shipping, ineffectiveness of the closure (see D/Tr Weekly No. 84) has been further demonstrated by the fourth successful entrance of an Isbrandtsen Line vessel into Shanghai, after having ignored a Nationalist signal to halt. Despite continued token displays of Nationalist naval force, such as the recent detention of a Greek vessel off Shanghai, and the possibility of deliberate or incidental air raid damage to US and UK shipping in Shanghai, it seems probable that the Nationalist attempt to seal off Communist China from substantial foreign trade is being effectively frustrated.  
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